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¶1. (U) Summary. This is Volume 9, issue 2 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Optimistic Outlook with Rates, Inflation Easing
- Rand at Mercy of Global Forces
- Permission to Raise Prices a Relief to Pharmaceutical Manufacturers
- Bread Cartel Reaches Settlement with Competition Commission
- New Low-Cost Carrier May Spark Price War - If it Can Get Off the Ground
- Altech Withdraws Objection to MTN-Verizon South Africa Merger
- Eskom Boosts Maintenance During Lull in Demand
- Eskom Scraps Nuclear Tenders - Cash-strapped Parastatal Looks at Cheaper Energy Deals
- Wind Energy Seminar in Pretoria

End Summary.

Optimistic Outlook with Rates, Inflation Easing

¶2. (U) Falling interest rates, inflation and gas prices would bring relief to the embattled South African economy this year, but conditions for business and consumers are set to remain challenging. South Africa's slowing growth has forced companies to scale back investment plans and shed jobs. "The business environment will remain tough in 2009, especially in the first half of the year," commented Business Unity SA economic consultant Raymond Parsons. South Africa's banking sector has been shielded from the global credit crunch by capital controls and sound regulation, but prices for key mineral exports have plunged on waning global demand and consumer spending contracted for the first time in a decade. A local recession looks unlikely, but economic growth slowed from an average of 5% in each year from 2003 through 2007 to about 3% in ¶2008. It is expected to moderate further to nearly 2% this year. Consumers may benefit from interest rate cuts and lower gas prices in 2009. The South African Reserve Bank kicked off an easing cycle with a half-percentage point reduction last month. Economists

expect interest rates to fall by another three percentage points by the time the easing cycle ends next year. That will put more money in the pockets of consumers, who drive two-thirds of the economy. Slowing private and public sector investment is also a concern for South Africa. Parsons expects the next few weeks to be "very telling" in terms of which way the economy is headed, although uncertainty would persist until the second half of the year when policy changes are clear, lower interest rates take effect, and the global backdrop had settled. (Business Day, January 5, 2009)

Rand at Mercy of Global Forces

¶3. (U) Experts are divided over whether the rand will reap the rewards of an expected revival in global risk appetite in 2009. Some analysts say that a recovery of commodity prices and a pick up in domestic growth in the second half of the year may propel the rand from the current rate of R9.3/$1 to R8/$1. However, other analysts think the rand will be hit by meager capital inflows and the risk that general elections in April could prompt changes in economic policies that have earned South Africa credibility in global markets. Most analysts agree that the rand's performance
Qglobal markets. Most analysts agree that the rand's performance will ultimately be driven by forces beyond South Africa's control as investors wait to see if huge rescue packages avert a prolonged recession in the world's largest developed economies, which are also South Africa's principal export markets. Standard Bank currency strategist Michael Keenan predicted, "It's going to be a jagged recovery as there is still a lot of risk aversion out there, but we do see a trend of rand firmness, especially in the latter half of this year." (Business Day, January 6, 2009)

Permission to Raise Prices a Relief

to Pharmaceutical Manufacturers

¶4. (U) Pharmaceutical manufacturers have welcomed the Health Department's decision to let them raise medicine prices as much as 13.2%. The price increases will give drug makers some relief from the margin pressure they experienced last year as the cost of importing raw materials soared with the rand weakening. As a result of currency depreciation, several local manufacturers -- including Africa's biggest generic drug maker, Aspen Pharmacore -- considered discontinuing unprofitable lines, including several antibiotics. Innovative Medicines SA, an industry body for multinational pharmaceutical firms, said the increases will provide relief to drug makers. "The whole market has been under huge pressure," said CEO Val Beaumont. (Business Day, January 8, 2009)

Bread Cartel Reaches Settlement
with Competition Commission

¶5. (U) Food producer, marketer, and distributor Foodcorp agreed to pay a R45 million fine ($4.7 million) to the Competition Commission after a price-fixing admission. Foodcorp admitted that its subsidiary Sunbake Bakeries was engaged in fixing the price of bread sold to consumers. The fine represents 6.7% of Foodcorp's turnover from all its baking operations for the 2006 financial year. Foodcorp also agreed to cooperate with the Commission in the prosecution of any other cartel members and to develop and implement a compliance program to ensure that the company did not engage in anti-competitive behavior. The Commission investigated Foodcorp after bread distributors in the Western Cape complained that three other food producers were fixing bread prices. (Mail and Guardian, January 6, 2009)

New Low-Cost Carrier May Spark Price War -
If it Can Get Off the Ground

¶6. (U) New low-cost airline Airtime is expected to spark a price war with rival airlines if it takes off later this month as planned. According to Airtime's website, fares for flights between Durban and Johannesburg from January 25 to March 22 are being sold for as little as R225 ($23) for a one-way ticket, excluding airport charges. Rival airlines are charging double that amount. Representatives from low-cost competitors said they would not adjust their prices in response to the launch of Airtime, but the sharp drop in fuel prices would allow them to cut fares. Whether Airtime will be ready to take to the skies on January 25 is still in doubt because its negotiations to lease three Boeing 737-200s and to use the lessor's air operator certificate (AOC) have collapsed. That appears to leave Airtime without aircraft or an AOC barely three weeks before it is due to begin flights between Johannesburg and Durban. (Business Day, January 6, 2008)

Altech Withdraws Objection to
MTN-Verizon South Africa Merger

¶7. (U) Technology group Allied Technologies (Altech) has withdrawn its objection to the merger between telecommunications giant MTN and Verizon South Africa. Altech opposed the merger between the two QVerizon South Africa. Altech opposed the merger between the two telecommunications companies because of "substantial competition concerns" related to the removal of an effective upstream infrastructure rival. The Competition Commission cleared the transaction and recommended that the transaction be approved without conditions. MTN plans to acquire Verizon European Holdings' 69.38% stake in Verizon South Africa, which performs layer switching, retail business internet connectivity, network security and information technology infrastructure services. (Engineering News, January 7, 2009)

Eskom Boosts Maintenance
During Lull in Demand

¶8. (U) Eskom expects electricity demand during late January to fall about 13% as compared with demand one year ago, allowing it to boost maintenance on its power network. Eskom is "doing as much maintenance as possible" during the decrease in demand, remarked Eskom spokesperson Fani Zulu. South Africa used an average of 31,500 megawatts (MW) in January 2008. Eskom expects South Africa to use an average of 27,500 MW in January 2009. Much of the decline in demand is attributable to reduced worldwide demand for ferrochrome, ferromanganese, and steel production and the closure or reduced production of the related smelters in South Africa. Eskom views the current decline in demand as "short- term" and is going ahead with a five-year R353 billion ($37.5 billion) expansion to double power capacity by about 2025. Zulu noted, "Demand for 2009 is very unpredictable as the depth of the downturn is still being assessed and the speed of recovery is uncertain. A clearer picture will only emerge in February as industry assesses their order books." (Bloomberg, January 6, 2009)

Eskom Scraps Nuclear Tenders -
Cash-strapped Parastatal
Looks at Cheaper Energy Deals

¶9. (U) Cash-strapped state power utility Eskom halted the tender process for "Nuclear One" - the project to build a second pressurized water reactor (PWR) - because it could not afford the prices on offer from the two bidders, Westinghouse and Areva, as one of its final acts of 2008. Eskom and the government are still committed to buying a new PWR, but they are gambling that they will get a much better deal this year if the global financial melt-down leads to a rash of cancelled orders for nuclear reactors around the world. Public Enterprises Director General Portia Molefe said, "It

is a different world from when this tender went out. It is definitely going to be much more of a buyer's market." Molefe declined to give figures, but said the prices submitted by Westinghouse and Areva were way above what equivalent coal-fired stations would cost. Westinghouse chief representative in South Africa Rita Bowser said the U.S.-based company was still keen to demonstrate that it could provide one of its AP1000 reactors at a competitive, affordable cost, based on a localization model. Bowser said it was important for South Africa to provide certainty about its nuclear plans and to work with the supplier to deliver a successful model. Independent energy consultant Andrew Kenny said, "Eskom might bring in other people such as the Russians and the Koreans, perhaps having a downward effect on pricing." He said that Eskom and the South African government were looking at a partnership model to build and run the PWR. "It might be that the negotiations become not just vendor to customer, but government to government," he said, noting that that might favor French government-owned Areva. (Business Times, January 5, 2009)

Wind Energy Seminar in Pretoria

¶10. (U) The South African Cities Network and the Embassy of Denmark plan to host a one-day wind energy seminar in Pretoria on January
Qplan to host a one-day wind energy seminar in Pretoria on January
¶23. Energy experts from Danish energy companies are expected to deliver papers and talks on wind mapping, wind technology, connecting wind power to the national grid, green technologies and wind energy in South Africa. Renewable energies comprise 27% of Denmark's electricity supply, and Danish companies are world leaders in wind power production. The South African Department of Minerals and Energy has set a target of generating 10,000 gigawatt hours of electricity from renewable resources by 2013. Eskom indicated its intentions to diversify its energy mix away from its heavy reliance on coal-based power generation. Eskom is in negotiations with potential suppliers for its proposed Western Cape wind farm. It was expected that the farm would consist of 50 2 MW turbines, generating some 100 MW of power. The planned completion date for the wind farm is March 30, 2010. (Engineering News, January 5, 2009)